

*House Bill No. 6045*

*Recovery Zone Economic Development Bonds*

*Recovery Zone Facility Bonds*

*Qualified Energy Conservation Bonds*

*Qualified School Construction Bonds*

House Commerce Committee  
Michigan Department of Treasury  
April 21, 2010



# The American Recovery and Reinvestment Act (ARRA)

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- The ARRA created or expanded public finance tools for local governments and private corporations including:
  - Recovery Zone Economic Development Bonds
  - Recovery Zone Facility Bonds
  - Qualified Energy Conservation Bonds
  - Qualified School Construction Bonds
- Regardless of the type of bond issued, the borrower must consider affordability and credit issues.
- The borrower is required to repay both principal and interest on the bonds. The program does not provide for a federal guarantee or credit support for the repayment of principal and interest on the bonds.



# Purpose of the Bill

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- Provide authority to the State Treasurer to allocate or re-allocate certain federal bond allocations including:
  - Recovery Zone Economic Development Bonds
  - Recovery Zone Facility Bonds
  - Qualified Energy Conservation Bonds
  - Qualified School Construction Bonds
- Better coordinate and track the issuance of bonds and provide a central resource for constituents seeking bond allocations. The State Treasurer already provides for the allocation of the Statewide private activity bond volume cap allocation received each year.
- As with the implementation of the 2009 and 2010 bond allocations, Treasury will continue to work with DELEG, the Department of Education, and the MEDC.



# Details of the Bill

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- Addresses the issue of who is authorized in the State to make the allocations; the ARRA does not specify
- Provides for the waiver or deemed waiver of bond allocations after a reasonable time period and consideration of whether bonds will be issued
- Requires priority for regional preferences for projects
- Ratifies and confirms allocations already made



# Recovery Zone Bonds

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- Two types of Zone Bonds were created through the ARRA
  - Taxable Recovery Zone Economic Development Bonds for public purpose projects which receive a 45% interest subsidy
  - Tax-exempt Recovery Zone Facility Bonds for private activity projects
- In order to issue bonds, projects must be located in a “Recovery Zone” within the boundaries of the jurisdiction receiving the allocation.
- In most cases, the issuance of Recovery Zone Bonds has required the local units to pledge their Limited Tax General Obligation (LTGO) as a backstop in order to sell the bonds.
- A few local units have asked for additional allocation for projects due to insufficient local allocation.
- In order to qualify, Recovery Zone bonds must be issued by December 31, 2010.



# Recovery Zone Bonds

## Local Outreach and Allocation Waivers

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- The Department of Treasury, the MEDC, and the Recovery Office coordinated several outreach efforts in 2009 including:
  - Informational releases through the Michigan Association of Counties
  - Survey of county treasurers regarding use of Recovery Zone Bonds
- Outreach was designed to inform local units of:
  - Their specific allocations
  - Recovery Zone Bond uses
  - General ARRA requirements
  - The State's desire to aggregate allocations that would not be used
    - A sample waiver resolution was provided
- To date, no allocations have been waived due, in part, to counties still vetting eligible projects with their local units, e.g. cities, townships, villages, EDCs, etc.



# Recovery Zone Economic Development Bonds Issuance Summary

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## *Recovery Zone Economic Development Bonds (for Public Purpose Projects)\**

<u>Issue Date</u>	<u>Issuer</u>	<u>Pledge</u>	<u>County</u>	<u>Amount</u>
9/30/09	City of Grand Haven	LTGO	Ottawa	\$ 5,600,000
10/15/09	City of Adrian	LTGO	Lenawee	5,500,000
11/10/09	Kent County Bldg Auth	LTGO	Kent	32,000,000
12/15/09	Township of Laketown		Allegan	525,000
1/20/10	Lenawee Co. Bldg Auth	LTGO	Lenawee	3,900,000
2/10/10	City of Clawson	LTGO	Oakland	1,400,000
3/9/10	Oakland Co. Bldg Auth		Oakland	5,800,000
3/16/10	Grand Rapids Bldg Auth	LTGO	Kent	1,770,000
4/13/10	Lyon Township	LTGO	Oakland	5,000,000
4/15/10	Oakland Macomb Drain. Dist.		Oakland	<u>6,700,000</u>
			Total	\$ 68,195,000

\* Michigan's total allocation: \$773 million

Total nationwide issuance through 4/12/10: Approximately \$3.8 billion of the \$10 billion authorization; however, total issuance includes all bond issues with a Recovery Zone Bond component, total issuance may be overstated.



# Recovery Zone Facility Bonds Issuance Summary

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## *Recovery Zone Facility Bonds (for Private Activity Projects)\**

<u>Issue Date</u>	<u>Issuer</u>	<u>Pledge</u>	<u>County</u>	<u>Purpose</u>	<u>Amount</u>
10/27/09	City of Allen Park	LTGO	Wayne	Film studio	\$ 3,000,000
12/15/09	County of Newaygo	LTGO	Newaygo	Jail	<u>6,500,000</u>
<b>Total</b>					<b>\$ 9,500,000</b>

\* Michigan's total allocation: \$1.2 billion

Total nationwide issuance through 4/12/10: Approximately \$492 million of the \$15 billion authorization; however, total issuance includes all bond issues with a Recovery Zone Bond component, total issuance may be overstated.



# Qualified Energy Conservation Bonds

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- Qualified Energy Conservation Bonds (QECB) are federally subsidized bonds which provide funding for capital expenditures including those incurred for reducing energy consumption, certain research facilities, and mass commuting facilities.
- For 2009 Michigan received a QECB allocation of \$103.8 million.
- The Department of Energy Labor and Economic Growth further allocated \$82.1 million to large local governments per the ARRA guidelines.
- The remainder of the 2009 allocation (\$21.7 million) remains unallocated.
- To date, the 2010 QECB allocations have not been announced.



# Qualified School Construction Bonds

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- Qualified School Construction Bonds (QSCB) are federally subsidized bonds which provide funding for capital expenditures including those incurred for the construction, rehabilitation, or repair of a public school facility.
- QSCB were designed to provide 0% interest cost to schools, however most of the transactions completed have included an additional interest component of 1%-3%.
- Michigan received the following QSCB allocations:
  - \$296.9 million for 2009 with an additional direct allocation to DPS of \$123.3 million.
  - \$297.6 million for 2010 with an additional direct allocation to DPS of \$127.6 million.
- The Department of Education further allocated the 2009 allocation to local school districts with an expiration date of July 23, 2010.
- The Department of Education, in working with Treasury, further allocated the 2010 allocation to local school districts with an expiration date of September 30, 2010.